

**Fiscal Services Division**  
**Legislative Services Agency**  
**Fiscal Note**

SF 2420 – TIME-21 Transportation Funding (LSB 6422 SZ)

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Fiscal Note Version – New

**Description**

Senate File 2420 includes the following key provisions:

- Increases the fees collected from certain motor vehicle and trailer registrations and titles, and allocates the additional revenues to the Transportation Moves the Economy in the 21<sup>st</sup> Century (TIME-21) Fund. The amount allocated to the Fund from vehicle registration fees includes the amount of revenue generated in excess of \$392.0 million annually. These provisions take effect January 1, 2009.
- Replaces the motor vehicle use tax with a “Fee for New Registration.”

**Overall Summary of Fiscal Impact by Fund**

***TIME-21 Fund***

Senate File 2420 deposits fees collected from trailer registrations, certificates of title and salvage title, and the revenues collected from vehicle registration fees in excess of \$392.0 million in the TIME-21 Fund. House File 932 (TIME-21 Fund Act), enacted during the FY 2007 Legislative Session, allocates revenues from the TIME-21 Fund to the Primary Road Fund (60.0%), Secondary Road Fund (20.0%), and City Street Fund (20.0%). The Act provides that the Fund will sunset on June 30, 2028. The following table shows estimated TIME-21 Fund revenues and allocations for FY 2009 – FY 2013.

<b>TIME-21 FUND</b>					
<b>ESTIMATED REVENUES &amp; ALLOCATIONS</b>					
(Dollars in Millions)					
<b><u>Revenues</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>
Motor Vehicle Registrations*	\$ 2.0	\$ 46.9	\$ 85.2	\$ 118.8	\$ 142.2
Trailer Registrations	4.4	8.8	8.8	8.8	8.8
Certificates of Title/Salvage Title	5.2	10.3	10.3	10.3	10.3
<b>Total Revenues</b>	<b>\$ 11.6</b>	<b>\$ 66.0</b>	<b>\$ 104.4</b>	<b>\$ 138.0</b>	<b>\$ 161.4</b>
* Includes 96.0% of revenues accrued from vehicle registration fees, in excess of \$392.0 million. Note: The fee increases take effect the second half of FY 2009.					
<b><u>Allocations</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>
Primary Road Fund (State) 60.0%	\$ 7.0	\$ 39.6	\$ 62.7	\$ 82.8	\$ 96.8
Secondary Road Fund (Counties) 20.0%	2.3	13.2	20.9	27.6	32.3
City Street Fund (Cities) 20.0%	2.3	13.2	20.9	27.6	32.3
<b>Total Allocations</b>	<b>\$ 11.6</b>	<b>\$ 66.0</b>	<b>\$ 104.4</b>	<b>\$ 138.0</b>	<b>\$ 161.4</b>
Note: Totals may not add due to rounding.					

## **Road Use Tax Fund**

The estimated net reduction to the Road Use Tax Fund, to reflect the \$392.0 million cap on vehicle registration fees and the shifts in certain allocations resulting from the Fee for New Registration, is as follows:

- FY 2009: \$0.5 million
- FY 2010: \$13.3 million
- FY 2011: \$12.4 million
- FY 2012: \$19.8 million
- FY 2013: \$32.4 million

## **Statutory Allocations Fund**

The Bill establishes a Statutory Allocations Fund (SAF). The SAF includes revenues generated from items that are not constitutionally protected to be spent on public highways, and will fund items currently funded from the motor vehicle use tax. The total amount deposited in the SAF is anticipated to exceed the total amount required. Moneys in excess of the amount necessary will be deposited in the Road Use Tax Fund. The following table shows estimated revenues and allocations for the Statutory Allocations Fund for FY 2009 – FY 2013.

<b>STATUTORY ALLOCATIONS FUND ESTIMATED REVENUES AND ALLOCATIONS</b> (Dollars in Millions)					
<u>Revenues</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Drivers License Fees	\$ 16.0	\$ 12.3	\$ 10.5	\$ 6.5	\$ 12.8
Motorcycle License Fees	0.3	0.2	0.2	0.1	0.2
Motorcycle License Fee Increase	0.3	0.2	0.2	0.1	0.2
Title & Salvage Title Fees	10.1	10.1	10.1	10.1	10.1
Surcharge on Titles & Salvage Titles	5.2	5.2	5.2	5.2	5.2
Trailer Registrations	5.8	5.8	5.8	5.8	5.8
Car Rental Tax	2.9	2.9	2.9	2.9	2.9
Use Tax on Mobile Homes & Manufactured Homes	0.7	0.7	0.7	0.7	0.7
Use Tax on Leased Vehicles Not Subject to Reg & Titling**	0.0	0.0	0.0	0.0	0.0
Fee for New Registration for Trailers**	0.0	0.0	0.0	0.0	0.0
<b>Total Revenues</b>	<b>\$ 41.3</b>	<b>\$ 37.4</b>	<b>\$ 35.6</b>	<b>\$ 31.4</b>	<b>\$ 37.9</b>
** The revenues collected from the use tax on leased vehicles not subject to registration and titling, and the fee for new registration for trailers, are unknown.					
<u>Allocations</u>					
Underground Storage Tank Loan Fund	\$ 17.0	\$ 17.0	\$ 17.0	\$ 17.0	\$ 17.0
Public Transit Assistance Fund	11.1	11.2	11.4	11.5	11.6
Motorcycle Rider Education Fund	0.6	0.4	0.4	0.2	0.4
Special License Plate Funds	1.4	1.4	1.4	1.4	1.4
Railway Finance Authority	0.0	0.0	0.0	0.0	0.0
Primary Road Fund (Bordering Bridges)	0.0	0.0	0.0	0.0	0.0
<b>Total Allocations</b>	<b>\$ 30.1</b>	<b>\$ 30.0</b>	<b>\$ 30.2</b>	<b>\$ 30.1</b>	<b>\$ 30.4</b>
<b>Balance to Road Use Tax Fund</b>	<b>\$ 11.2</b>	<b>\$ 7.4</b>	<b>\$ 5.4</b>	<b>\$ 1.3</b>	<b>\$ 7.5</b>
Note: The Bill specifies that the revenues will be allocated in the order listed above.					

## **State General Fund**

Senate File 2420 increases value-based annual vehicle registration fees for most new vehicles. Value-based vehicle registration fees are itemized income tax deductions and increasing

itemized deductions decreases a taxpayer's State income tax liability if the taxpayer chooses to itemize. The net State General Fund revenue reduction associated with the increased itemized deductions is projected as follows:

- FY 2011: \$1.0 million
- FY 2012: \$2.0 million
- FY 2013: \$2.7 million

### ***General Fund of Counties***

Under current law, county treasurers retain 4.0% of the total amount collected from vehicle registration fees for deposit in the county general fund. As a result of the vehicle registration fee increase, counties are estimated to receive the following increases:

- FY 2009: \$0.1 million
- FY 2010: \$1.6 million
- FY 2011: \$3.0 million
- FY 2012: \$4.1 million
- FY 2013: \$4.6 million

### ***Motorcycle Rider Education Fund***

Senate File 2420 increases the fee for motorcycle operator licenses from \$1 to \$2 per year of license validity. The Bill deposits these fees in the Statutory Allocations Fund. An amount equal to the fees collected is then allocated to the Motorcycle Rider Education Fund from the Statutory Allocations Fund. The estimated fiscal impact to the Motorcycle Rider Education Fund is an annual increase in the following amounts resulting from the additional revenue collected from the \$1 increase in motorcycle operator's license fees:

- FY 2009: \$0.3 million
- FY 2010: \$0.2 million
- FY 2011: \$0.2 million
- FY 2012: \$0.1 million
- FY 2013: \$0.2 million

## **Summary of Fiscal Impact by Division**

### ***Division I – Motor Vehicles***

#### **Description**

Prior to distributing moneys under the Road Use Tax Fund formula, SF 2420 requires the Treasurer of State to:

- Credit annually the amount collected from motor vehicle registration fees in excess of \$392.0 million to the TIME-21 Fund.
- Credit monthly to the TIME-21 Fund an amount equal to the revenues attributable to the increase in trailer registration fees.
- Credit monthly to the TIME-21 an amount equal to the revenues attributable to the increase in fees for titles, salvage titles, and titles for motor vehicles returned to the manufacturer.

Senate File 2420 includes the following changes to motor vehicle registrations:

- Under current law, the formula used to calculate the annual fee for a vehicle registered based on weight and value is 1.0% of the vehicle's value plus 40 cents per 100 pounds of the vehicle's weight. Senate File 2420 expands the automatic fee reduction schedule for vehicles registered based on weight and value as follows:
  - Vehicles more than seven model years old: the portion of the fee based on value is 75.0% of the rate as fixed when the vehicle was new.
  - Vehicles more than nine model years: the portion of the fee based on value is 50.0% of the rate as fixed when the vehicle was new.
  - Vehicles 12 model years or older: the fee is \$50; however, the owner of a vehicle currently paying a fee of less than \$50 will continue to pay that fee for as long as they own the vehicle.
- The fee for a vehicle registered as antique prior to January 1, 2009, will be \$23 for model years 1970 – 1983 and \$16 for model years 1969 and older.
- Model year 2010 and newer 3, 4, and 5-ton trucks may be registered as a “business-trade” truck if the owner meets the eligibility requirements specified in the Bill. Those that qualify will be issued business-trade registration plates. If a person registers a business-trade truck that is not qualified to be registered as such, penalties provided under existing law apply. The Bill provides additional penalties under the following conditions:
  - If the Department determines that a person registered a business-trade truck that does not meet the qualifications, the person is required to pay the difference between the regular annual registration fee owed for each year the vehicle is registered as a business-trade truck and the fees actually paid.
  - If the Department determines that a person knowingly registered a business-trade truck that does not meet the qualifications, the person is required to pay a penalty of \$750 for each registration year that the vehicle was knowingly registered as a business-trade truck, not to exceed \$2,250. Of the total fees collected, 25.0% will be deposited in the county general fund, with the remaining amount deposited in the Road Use Tax Fund.
- Owners of model year 2009 and older trucks and special trucks will be charged the current annual fees. Owners of model year 2010 and newer trucks and special trucks will be charged the following annual fees:
  - Three-ton business-trade trucks: New to seven model years old \$150; more than seven model years old \$120; more than nine model years old \$100; and 12 model years old and older \$50.
  - Four-ton business-trade trucks: \$165
  - Five-ton business-trade trucks: \$180
  - Trucks not registered as a business-trade truck, with an unladen weight of 10,000 pounds or less, will be registered based on weight and value.
  - Six to nine-ton trucks: Between \$195 and \$225.
  - Six to 18-ton special trucks for farm use: Between \$100 and \$315.

### **Assumptions**

- An estimated 53.0% of Iowans itemize income tax deductions. The average marginal income tax rate for those that itemize is estimated at 4.9%, after adjusting for the deductibility of federal income taxes paid.
- County treasurers will retain 4.0% of the additional revenues collected from vehicle registration fees, and the remaining 96.0% will be deposited in the Road Use Tax Fund.

The revenue deposited in the Road Use Tax Fund in excess of \$392.0 million will be credited to the TIME-21 Fund.

- For purposes of this analysis, a truck with a combined gross weight of three tons or less is considered a three-ton truck; a truck with a combined gross weight of more than three tons but less than four tons is considered a four-ton truck; a truck with a combined gross weight of more than four tons but less than five tons is considered a five-ton truck; and so forth.
- For passenger vehicles (cars and multipurpose vehicles) and three, four, and five-ton trucks, the data used for each future model year is based on an eight-year average of the most complete fleet counts available (model years 1999 – 2006).
- For vehicles registered based on weight and value, the registration fees for model year 2006 and older vehicles were calculated based on the average empty weight and list price of the current vehicle fleet. For model year 2007 and newer vehicles, the registration fees were based on an eight-year average empty weight and list price.
- For purposes of this analysis, 25.0% of three-ton trucks, 90.0% of four-ton trucks, and 90.0% of five-ton trucks will be registered as business-trade trucks.
- The number of trucks that will be registered as business-trade trucks that do not meet the qualifications is unknown.

### ***Division II – Title Fees***

The Bill increases the annual fees for motor vehicle titles from \$10 to \$20, and from \$2 to \$10 for salvage titles and titles for motor vehicles returned to a manufacturer.

### ***Division III – Trailer Registration Fees***

The Bill increases the annual registration fees from \$10 to \$20 for trailers weighing 2,000 pounds or less and from \$10 to \$30 for trailers weighing more than 2,000 pounds. In addition, the fee for travel trailers and fifth-wheel trailers will increase from 20 cents per square foot to 30 cents per square foot.

**FISCAL IMPACT – Divisions I – III:** The estimated fiscal impact of the revenues generated from the increase in fees for vehicle registrations, title fees, and trailer registrations is shown in the following tables. It should be noted that the total revenues generated from the increase in vehicle registration fees is not the amount deposited into the TIME-21 Fund.

<b>ESTIMATED TOTAL REVENUE GENERATED FROM FEE INCREASES*</b> (Dollars in Millions)			
	<b>Current Law</b>	<b>Proposed Law</b>	<b>Difference</b>
FY 2009	\$ 364.6	\$ 386.9	\$ 11.2
FY 2010	371.0	429.2	58.2
FY 2011	376.4	471.5	95.1
FY 2012	383.2	505.5	122.3
FY 2013	388.2	521.6	133.4
* Including vehicle registrations, which includes motor carrier registrations, and titles and trailer registrations.			

The following table reflects the revenues generated from the increase in fees for registrations by vehicle type, and trailer registrations and titles. The amount deposited into the TIME-21 Fund from vehicle registration fees, which is the amount collected in excess of \$392.0 million annually, is shown in the TIME-21 table on page 1. The total amount generated from the increase in fees for titles and trailer registrations is deposited into the TIME-21 Fund.

<b>EST. ADDITIONAL REVENUE GENERATED FROM FEE INCREASES</b>					
(Dollars in Millions)					
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Cars & MPVs	\$ 1.0	\$ 30.4	\$ 60.1	\$ 79.9	\$ 83.7
3, 4, & 5-Ton Trucks	0.6	8.3	15.6	22.8	30.0
6 – 9-Ton Trucks	0.0	0.2	0.2	0.3	0.4
6 – 18-Ton Special Trucks	0.0	0.1	0.1	0.1	0.2
Trailer Registrations	4.4	8.8	8.8	8.8	8.8
Titles & Salvage Titles	5.2	10.3	10.3	10.3	10.3
<b>Total</b>	<u>\$ 11.2</u>	<u>\$ 58.2</u>	<u>\$ 95.1</u>	<u>\$ 122.3</u>	<u>\$ 133.4</u>

The estimated fiscal impact of creating the business-trade registration plates is anticipated to be minimal.

#### ***Division IV – Studies***

- The Bill requires the Department of Transportation (DOT) to conduct an analysis of the additional revenues necessary to provide at least \$200.0 million annually to the TIME-21 Fund by FY 2012. The report is to be submitted to the Governor and General Assembly by December 31, 2008.
- The Bill requires the DOT, in cooperation with the Office of Energy Independence and the Department of Natural Resources (DNR), to review the current revenues available for support of public transit and the sufficiency of those revenues to meet future needs. The report is to be submitted to the Governor and General Assembly by December 1, 2009.

**FISCAL IMPACT:** The estimated fiscal impact of completing the TIME-21 and public transit studies are anticipated to be minimal.

#### ***Division V – Motorcycle Operator License Fee***

The Bill increases motorcycle license fees from \$1 to \$2 per year of license validity. The additional revenue will be credited to the Motorcycle Rider Education Fund pursuant to current law.

**FISCAL IMPACT:** The estimated fiscal impact of the \$1 motorcycle license fee increase is an increase of between \$100,000 and \$300,000 annually, as specified on page 3.

#### ***Division VI – Motor Vehicle Use Tax Repealed – Fee for New Registration Imposed***

##### **Description**

- Senate File 2420 repeals the motor vehicle use tax and the motor vehicle lease tax, except for the tax on the use of leased vehicles if the lease transaction does not require titling and registration of the vehicle. The Bill also retains the use tax on mobile homes and manufactured homes. The resulting revenue may be used to supplement the funding sources for items currently funded from the motor vehicle use tax, with the remainder deposited in the Road Use Tax Fund.
- The Bill establishes a one-time “Fee for New Registration,” in lieu of the motor vehicle use tax. The fee is based on the current motor vehicle use tax rate of 5.0% of the purchase or leased price of a vehicle, and is subject to the same exemptions currently applicable to the use tax on vehicles. As is currently the case with the motor vehicle use tax, the county treasurers will retain \$1 from the fee for new registration for deposit in the county general fund.

- The Bill provides alternate sources of revenue, including the Road Use Tax Fund and Statutory Allocations Fund, to fund items currently funded from the motor vehicle use tax. The Statutory Allocations Fund includes revenues that are not constitutionally protected to be spent on roads.

### **Additional Information**

The Administration and Regulation Appropriations Act annually appropriates an estimated \$1.5 million from the motor vehicle use tax to the Department of Inspections and Appeals (DIA) for driver's license revocation hearings. Senate File 2420 does not address this appropriation. This analysis assumes that an estimated \$1.5 million will be appropriated annually to the DIA from the Road Use Tax Fund beginning in FY 2009.

### **Assumptions**

This analysis assumes that funding will not be allocated to the Railway Finance Authority and Primary Road Fund for bordering bridges in future years.

**FISCAL IMPACT:** Items currently funded from the motor vehicle use tax will require funding from alternate sources of revenue under the proposed legislation. The Primary Road Fund (for use on the Commercial and Industrial Network) and the Department of Inspections and Appeals will be funded directly from the Road Use Tax Fund for the same amount as currently funded. Public Transit Assistance will be funded from the Statutory Allocations Fund (SAF) in an amount equal to 4.0% of the revenue collected from the Fee for New Registration (this equates to the same amount currently allocated for Public Transit Assistance). The other items, including the Underground Storage Tank Loan Fund, will be funded from the SAF for the same amount currently allocated.

Total revenues deposited into the SAF are anticipated to exceed the total amount required to fund the items currently funded from the motor vehicle use tax. Moneys in excess of the amount necessary will be deposited in the Road Use Tax Fund. The Statutory Allocations Fund table on page 2 shows annual revenues and allocations for the Fund.

The following table reflects the changes in funding sources resulting from the motor vehicle use tax repeal.

**SENATE FILE 2420**  
**MOTOR VEHICLE USE TAX REPEAL**  
**CHANGES IN FUNDING SOURCES**

Purpose of Allocation	Source of Funding	
	Current	Proposed
	<u><i>Motor Vehicle Use Tax "Off-the-Tops"</i></u>	
Primary Road Fund (Commercial & Industrial Network)	Funded from an amount equal to 1/2 of 20.0% of the revenue collected from the use tax on motor vehicles other than leased vehicles.	Funded from the Road Use Tax Fund in an amount equal to 10.0% of the revenue collected from the fee for new registration on motor vehicles other than leased vehicles.
Department of Inspections & Appeals	Funded from an annual appropriation of approximately \$1.5 million.	Funded from an annual appropriation of approximately \$1.5 million from the Road Use Tax Fund.
Underground Storage Tank Loan Fund	Funded from an amount equal to 25.0% of 80.0% of the revenue collected from the use tax on motor vehicles, including leased vehicles (\$4.25 million per quarter or \$17.0 million annually).	Funded first from the Statutory Allocations Fund* in an amount of \$4.25 million per quarter or \$17.0 million annually.
	<u><i>Funded from the Motor Vehicle Use Tax Following Deposit into the Road Use Tax Fund</i></u>	
Public Transit Assistance	Funded from an amount equal to 1/20 of 80.0% of the revenue collected from the use tax on motor vehicles other than leased vehicles.	Funded second from the Statutory Allocations Fund* in an amount equal to 4.0% of the revenue collected from the fee for new registration on motor vehicles other than leased vehicles.
Motorcycle Rider Education Fund	Funded from an amount equal to \$1 per year of motorcycle operator's license validity.	Funded third from the Statutory Allocations Fund* in an amount equal to \$2 per year of motorcycle operator's license validity.
	<u><i>Funded from the Motor Vehicle Use Tax Prior to Deposit into the Road Use Tax Fund</i></u>	
Special License Plate Funds	Transfers an amount equal to the special plate fees to the respective special plate funds.	Funded fourth from the Statutory Allocations Fund* in the amount equal to the special plate fees credited to the Road Use Tax Fund.
	<u><i>Funded from the Motor Vehicle Use Tax As Needed</i></u>	
Railway Finance Authority	Provides up to \$2.0 million per year for payments on obligations and lease payments.	Funded fifth from the Statutory Allocations Fund* in an amount not to exceed \$2.0 million per year.
Primary Road Fund (Bordering Bridges)	The amount of revenue necessary for reimbursement of expenditures not otherwise eligible to be made from the Primary Road Fund for certain projects on bridges over rivers bordering the State.	Funded last from the Statutory Allocations Fund* in the amount of revenue necessary for reimbursement of expenditures not otherwise eligible to be made from the Primary Road Fund.

\* The Statutory Allocations Fund includes the fees collected from revenues that are not constitutionally protected to be spent on public highways. These revenues include driver's licenses and non-operator identification cards; trailer registrations; certificates of title and the surcharge on certificates of title; the use tax on mobile homes, manufactured homes, and out-of-state leased vehicles; and car rental taxes.



**Sources**

Department of Revenue  
Department of Transportation  
Treasurer of State  
Legislative Services Agency (LSA)

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/s/ Holly M. Lyons

April 15, 2008

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The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

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